

Release Apr 19

THE CANADIAN FARADAY CORPORATION LIMITED/1966 ANNUAL REPORT

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DIRECTORS

Ashton W. Johnston

H. Brodie E. Hicks

Leslie E. Wetmore

Archibald B. Whitelaw

George L. Jennison

John K. McCausland

W. Clarke Campbell

OFFICERS

Ashton W. Johnston
President

H. Brodie Hicks
Vice-President

Leslie E. Wetmore
Secretary

William M. O'Shaughnessy
Treasurer

Royal Trust Company
Toronto • Montreal • Vancouver
Registrar and Transfer Agent

Bank of Montreal Trust Company
New York
Co-Transfer Agents

**Thorne, Mulholland, Howson &
McPherson, Toronto**
Auditors

Suite 1600, 100 Adelaide Street West
Toronto, Ontario
Head Office

The Directors are pleased to present the Annual Report for the year ended December 31, 1966, including the Consolidated Financial Statements for that year and the Auditors' report thereon.

Two dividends of 12½ cents each were paid during 1966 and a further dividend of 12½ cents was declared late in 1966 and paid in January 1967. Total dividend disbursements now exceed \$4,400,000.

The Company continued its normal policies of mine exploration, development and operation. For the most part these were carried out through Metal Mines Limited, Faraday's operating subsidiary in which it holds an 84% interest, although some exploration activities were undertaken directly by Faraday.

The more important events of the year included, (1) the successful completion of negotiations which are expected to lead to resumption of production at the Bancroft uranium mine; (2) the opening of the Red Mountain Mines Limited open-pit and concentrator near Rossland, British Columbia. Additionally, (3) toward the end of the year, Western Mines Limited, in which Faraday holds an equity position, commenced operations on its Vancouver Island property. The Werner Lake nickel-copper producer operated routinely through 1966. Some details of these events follow.

Metal Mines has concluded an agreement with Federal Resources Corporation of Salt Lake City, Utah, under which Federal has undertaken to expend up to \$1,300,000 in underground exploration and development at the former uranium producer near Bancroft, Ontario, within

the next three years. Should this work prove successful, Federal has the option of placing the property back in production. A new corporation would then be formed in which Federal would hold 51% and Metal Mines 49%. Metal Mines would receive, in addition, \$1,000,000 out of future profits. Preliminary work, leading to dewatering of the mine workings, is underway. Federal already operates a producing uranium mine in the United States and has a number of other mining interests.

Red Mountain Mines Limited is a 400 ton-per-day molybdenite producer, which has been financed to production equally by Metal Mines and by a subsidiary of The International Nickel Company of Canada Limited. Metal Mines is responsible for operational management. Cost of bringing the property to production has been about \$2,000,000, which is to be repaid out of 80% of profits. Thereafter, the financing group is to receive 40% of the profits and the vendors, Torwest Resources (1962) Limited, 60%. Mill tune-up commenced in May 1966 and full production was achieved early in July. Since then the property has operated normally, with tonnage and grade (0.44% MoS₂) both approximating original estimates.

The Werner Lake nickel-copper mine operated throughout the year. Tonnage treated was greater by 14.5% than in 1965, but this was partly offset by a lowering of grade, both of these factors being attributable to a higher proportion of mining being carried out by blast-hole methods. This policy has been adopted with a view to reducing manpower requirements as the

DIRECTORS' REPORT TO THE SHAREHOLDERS:

**DIRECTORS' REPORT
TO THE SHAREHOLDERS:
(cont'd)**

availability of satisfactory underground labour continues to be critical.

The new "D" zone, some 1,200 feet east of the main shaft on the 1,200 and 1,350-foot levels, was prepared for mining during the year and will be in full production throughout 1967. A search for new ore is currently underway, including driving of a 2,000-foot heading eastward on the bottom or 1,650-foot level. During the coming summer, surface exploration on the Company's large property will also be continued.

Faraday and Metal Mines have a substantial interest in Western Mines Limited, whose gold-silver-copper-lead-zinc property on Vancouver Island reached production late in 1966 at an initial mill rate of 800 tons-per-day. Apart from the usual mechanical difficulties encountered in any new operation, the plant is functioning well, and promises to return a most satisfactory profit.

Operations at Johnsby Mines Limited, in the Slocan District of British Columbia, in which Metal Mines held a $\frac{1}{3}$ interest, were terminated late in the summer with the exhaustion of known ore sources.

Two additional holes were drilled on the property of Prairie Potash Mines Limited during the year, completing the exploratory program. Engineering studies have now been carried out and a production decision is dependent upon the development of markets.

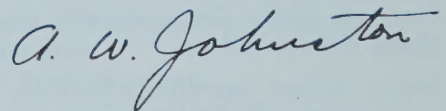
In partnership with Louvicourt Goldfield Corporation, Metal Mines carried out a program of exploration for natural gas in an area immediately east of the City of Montreal. Unfortunately, although showings of both gas and oil were obtained in drilling, the quantities were insufficient to be considered commercial. No further work is currently planned.

The Company carried on its usual program of exploration, examining a number of property submissions and taking part in several prospecting ventures.

In conjunction with the Annual Meeting of the Company, a Special General Meeting will be held to consider a proposition which would involve the merger and consolidation of the undertakings of Faraday, Metal Mines Limited and Augustus Exploration Limited into one corporate entity. Details of this proposed transaction are set out in the enclosed Proxy Statement.

We are pleased to acknowledge the loyal and efficient services of the Company's personnel during the year and particularly those of the two Mine Managers, Mr. Clayton P. Moore, at Werner Lake, and Mr. B. C. Fillingham, at Red Mountain.

On Behalf of the Board



President
March 31, 1967

To the Shareholders of
The Canadian Faraday
Corporation Limited:

We have examined the consolidated balance sheet of The Canadian Faraday Corporation Limited and its subsidiary, Metal Mines Limited, as at December 31, 1966 and the consolidated statements of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

AUDITORS' REPORT

In our opinion the aforementioned consolidated financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles except for the omission of amortization of pre-production expenditures referred to in note 5, applied on a basis consistent with that of the preceding year.

THORNE, MULHOLLAND,
HOWSON & McPHERSON
Chartered Accountants

Toronto, Canada
February 2, 1967

THE CANADIAN FARADAY CORPORATION LIMITED
Incorporated under the laws of Ontario
AND ITS SUBSIDIARY, METAL MINES LIMITED

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1966

(with comparative figures for 1965)
(note 1)

ASSETS

Current assets:

	1966	1965
Cash and short-term deposits	87,748	1,085,998
Concentrates at estimated sales value	1,146,645	867,090
Accounts receivable	161,901	118,529
6¼% Mortgage receivable due June 15, 1966		119,900
Supplies at average cost	314,047	298,212
Prepaid expenses	29,132	18,462
	<u>1,739,473</u>	<u>2,508,191</u>

Investments and advances (note 2):

Subsidiaries not consolidated:		
Shares at cost	15	12
Advances	864,482	1,011,320
	<u>864,497</u>	<u>1,011,332</u>
Less Allowance for losses	260,000	180,800
	<u>604,497</u>	<u>830,532</u>

Augustus Exploration Limited, an associated company:

Shares at cost	524,686	514,504
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Red Mountain Mines Limited:

Shares at nominal value	1	1
Advances	1,001,000	326,000

Prairie Potash Mines Limited:

Shares at cost	180,000	180,000
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Western Mines Limited:

Shares at cost (market value 1966, \$948,213; 1965, \$1,057,736)	596,636	449,598
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Smelter Power Corporation:

Shares at nominal value		1
Advances	159,120	159,120

Other mining and exploration companies:

Shares at cost (market value 1966, \$7,325; 1965, \$12,372)	20,867	6,116
Advances		87,500
	<u>3,086,807</u>	<u>2,553,372</u>

Fixed assets (notes 3 and 4):

Buildings, plant and equipment at cost	9,715,676	9,640,124
Less Accumulated depreciation	7,513,311	7,171,194
	<u>2,202,365</u>	<u>2,468,930</u>

Mining claims, rights, properties and leases

Less Accumulated depletion	1,314,924	1,314,924
	<u>1,309,608</u>	<u>1,309,608</u>
	5,316	5,316
	<u>2,207,681</u>	<u>2,474,246</u>

Other assets:

Special refundable tax	6,800	
Interest in power line at cost less recoveries	132,916	169,303
Deferred development expenditures less amortization	181,125	116,511
	<u>320,841</u>	<u>285,814</u>
	<u>\$7,354,802</u>	<u>\$7,821,623</u>

LIABILITIES

	1966	1965
Current liabilities:		
Accounts payable and accrued liabilities	211,397	216,588
Dividends payable	279,476	502,120
Ontario Mining Tax	9,500	
Provision for guarantee upon liquidation of subsidiary	229,200	162,700
	<u>729,573</u>	<u>881,408</u>
Minority interest in net assets of subsidiary	<u>984,259</u>	<u>1,013,272</u>

SHAREHOLDERS' EQUITY**Capital stock:**

Authorized, 3,500,000 shares of no par value		
Issued, 1,762,364 shares	3,297,764	3,297,764

Retained earnings

<u>2,343,206</u>	<u>2,629,179</u>
<u>5,640,970</u>	<u>5,926,943</u>



Approved on behalf of the Board

H. BRODIE HICKS, Director

L. E. WETMORE, Director

The accompanying notes are an integral part of the financial statements.

<u>\$7,354,802</u>	<u>\$7,821,623</u>
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THE CANADIAN FARADAY CORPORATION LIMITED
AND ITS SUBSIDIARY, METAL MINES LIMITED

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
Sale of concentrates	3,608,465	3,040,286
Operating expenses (including directors' fees 1966, \$26,200; 1965, \$17,150)	3,229,306	2,603,530
	379,159	436,756
Investment income	157,666	
	536,825	436,756
Bancroft Mine maintenance expense	45,959	46,367
Depreciation	346,563	340,923
Amortization of deferred development expenditures	37,020	21,775
	429,542	409,065
Income before undernoted items	107,283	27,691
Add:		
Adjustment of prior years' income taxes		49,396
Option payment received		5,000
	107,283	82,087
Deduct:		
Allowance for losses of subsidiaries not consolidated	79,200	25,500
Portion of income of subsidiary, Metal Mines Limited, applicable to minority interest	14,531	23,240
	93,731	48,740
Net income for year (notes 5, 6 and 7)	\$ 13,552	\$ 33,347

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
Retained earnings at beginning of year	2,629,179	3,552,823
Net income for year	13,552	33,347
	2,642,731	3,586,170
Add:		
Proceeds from sale of shares of Smelter Power Corporation	236,500	
Profit (loss) on sale of fixed assets	(13,978)	65,497
	222,522	65,497
Less Minority interest thereon	34,992	10,322
	187,530	55,175
	2,830,261	3,641,345
Deduct:		
Outside exploration	111,173	176,221
Advance to another company written off	75,000	
Adjustment of a prior year's mining tax	9,500	
	195,673	176,221
Less Minority interest thereon	30,770	24,646
	164,903	151,575
Provision for loss on liquidation of subsidiary	100,000	420,000
Dividend declared	220,295	440,591
Excess of cost of shares of Metal Mines Limited acquired during year over net book value of shares	1,857	
	487,055	1,012,166
Retained earnings at end of year	\$2,343,206	\$2,629,179

1. Proposed events and transactions:

Under the terms of an agreement dated December 22, 1966 between The Canadian Faraday Corporation Limited, Augustus Exploration Limited and Metal Mines Limited, the companies have agreed to the following, subject to approval of shareholders:

- (i) Application by Faraday and Augustus for Letters Patent of Amalgamation, under the name of Consolidated Canadian Faraday Limited.
- (ii) Cancellation of the Faraday shares (548,822 shares) owned by Augustus, thereby reducing the number of Faraday shares outstanding to 1,213,542 shares.
- (iii) Cancellation of the Augustus shares (702,319 shares) owned by Metal Mines.
- (iv) Reduction of the number of outstanding Augustus shares (3,752,492 shares, after cancellation of 702,319 shares owned by Metal Mines) to 750,498 shares, a one for five reverse stock split.
- (v) The conversion of the remaining outstanding shares of Faraday (1,213,542 shares) and the remaining outstanding shares of Augustus (750,498 shares) into shares of Consolidated Faraday on a share for share basis.
- (vi) Following the grant of Letters Patent of Amalgamation, the purchase by Consolidated Faraday of all of the assets of Metal Mines and the assumption of its liabilities for a share consideration consisting of 567,350 shares of capital stock of Consolidated Faraday.
- (vii) Upon receipt of the 567,350 shares of Consolidated Faraday, the distribution by Metal Mines of all of said shares to its minority shareholders and the termination of its corporate existence. (For each two shares of Metal Mines held the minority shareholders of Metal Mines will receive one share of Consolidated Faraday).
- (viii) The adjustment of options to purchase an aggregate of 145,000 shares of Metal Mines stock at \$1.30 per share, presently outstanding, to permit the purchase of an aggregate of 72,500 shares of stock of Consolidated Faraday at an option price of \$2.60 per share.
- (ix) The adjustment of options to purchase an aggregate of 66,666 shares of Augustus stock at \$.50 per share, presently outstanding, to permit the purchase of an aggregate of 13,333 shares of stock of Consolidated Faraday at an option price of \$2.50 per share.

The above events and transactions are not reflected herein because the effective date of agreement is subject to the aforementioned shareholders' approval.

2. Investments and advances:

(a) Subsidiaries not consolidated:

The accounts of subsidiaries other than Metal Mines Limited have not been consolidated with those of the company as their operations differ in nature.

The company's proportion of losses since acquisition has been provided for in the company's accounts.

In 1965 the company changed its practice of charging all such provisions against income and provided for the liquidation of an unconsolidated subsidiary by a charge to retained earnings of \$420,000. An additional provision of \$100,000 for the liquidation of this subsidiary has been charged against retained earnings in the current year.

(b) Red Mountain Mines Limited:

Under the terms of an agreement with Torwest Resources (1962) Ltd. dated December 15, 1964, Metal Mines Limited,

- (1) incorporated Red Mountain Mines Limited to commercially develop and operate a molybdenite property near Rossland, British Columbia.
- (2) obtained 40% of the issued common shares of Red Mountain.
- (3) advanced Red Mountain sufficient funds to commercially develop the property and provided adequate working capital, such advances to be secured by 6% debentures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1966

- (4) received an option to purchase 1,000,000 shares of Torwest at \$1.50 per share up to September 17, 1967. This option has not been exercised as of December 31, 1966.

By an agreement dated February 5, 1965, Metal Mines assigned one-half of its interest in the above agreement to Canadian Nickel Company Limited.

3. Agreement with Federal Resources Corporation:

Pursuant to the terms of an agreement dated September 8, 1966 between Metal Mines Limited and Federal Resources Corporation, Metal Mines granted Federal the right to investigate the commercial potential of its Bancroft (uranium) property. If it is deemed advisable by the companies, the property will be re-activated by Federal, which will thereby acquire a 51% interest. Metal Mines will retain a 49% interest in the operation.

4. Mining claims, rights, properties and leases:

Mining claims, rights, properties and leases are valued at cost with the exception of a group of claims located in the Werner Lake area, Ontario, which are recorded at a nominal value of \$1.

5. Preproduction expenditures:

In 1963, the company changed its practice of amortization at 10% per annum on cost, and wrote off to consolidated retained earnings unamortized pre-production expenditures at the producing property, Werner Lake Division, in the amount of \$2,604,302. Accordingly, no provision for amortization has been necessary for the current year.

6. Income taxes:

No provision for income taxes is required because of the availability of deductions relating to preproduction expenditures and depreciation in excess of the amount reflected in the consolidated statement of income, to offset otherwise taxable income.

7. Comparison with consolidated statement of income included in Proxy Statement dated April 6, 1967, prepared in accordance with the requirements of the United States Securities and Exchange Commission:

The net income reported in the Proxy Statement and the amounts shown in the accompanying consolidated statement of income are reconciled as follows

	Year ended December 31,	
	1966	1965
Loss as shown in the Proxy Statement	(54,321)	(542,999)
Add:		
Loss on disposal of fixed assets	13,978	14,682
Outside exploration	111,173	176,221
Extraordinary items	163,206	217,460
Minority interest	16,016	(26,963)
Allowance for loss of subsidiary, Trigon Associates Limited		135,000
Gain on realization of income taxes recoverable		49,396
Adjustment of Ontario mining tax		10,550
	304,373	576,346
	250,052	33,347
Deduct proceeds from sale of shares of Smelter Power Corporation	236,500	
Net income as shown in the accompanying consolidated statement of income	\$ 13,552	\$ 33,347

NOTES TO CONSOLIDATED
FINANCIAL STATEMENT
(cont'd)

